

Candidate Name	Centre Number	Candidate Number
		2



GCE AS/A level

1131/01

ECONOMICS – EC1

P.M. WEDNESDAY, 12 January 2011

1 hour

For Examiner's use only		
Question	Maximum Mark	Mark Awarded
1	2	
2	2	
3	4	
4	4	
5	3	
6	9	
7	6	
8	12	
9	8	
TOTAL	50	

1131/01/0001

DO NOT OPEN THIS BOOKLET UNTIL YOU ARE TOLD TO DO SO.

ADDITIONAL MATERIALS

In addition to this examination paper, you will need a calculator.

INSTRUCTIONS TO CANDIDATES

Use black ink or ball-point pen.

Write your name, centre number and candidate number in the spaces at the top of this page.

Answer **all** the questions in the spaces provided. You may use continuation paper on page 14 if necessary, taking care to number the continuation correctly.

INFORMATION FOR CANDIDATES

Mark allocations are shown in brackets. This paper has a total of 50 marks.

Answer all the questions in the spaces provided.

1. Using the information, in the box, below explain the meaning of the term opportunity cost.[2]

WHAT £200 MILLION OF TAXPAYERS MONEY COULD BUY

11,764 newly qualified nurses for a year.	200,000 prescriptions of the Alzheimer's drug Aricept for a year.
4 desperately needed Apache attack helicopters for the Army.	125,000 sets of Osprey body armour and helmets to protect our troops in war zones.
9,523 newly qualified teachers' salaries.	121,580 ornamental duck houses of the kind that Tory MP Sir Peter Viggers ordered for his pond.
33,333 hip replacements on the NHS.	

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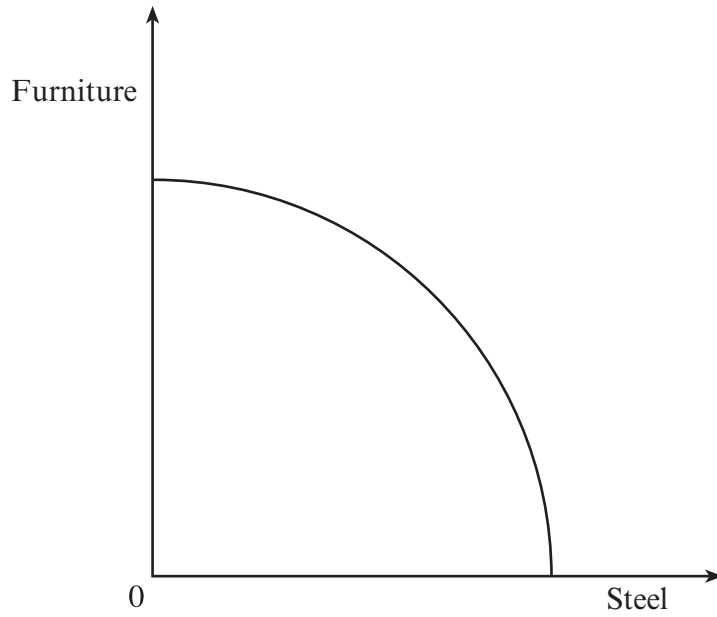
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Total Mark

- 2. The diagram below shows the production possibility frontier for a country that produces only steel and furniture.



Adapting the diagram above, explain the impact on the economy of an increase in the productivity of the steel industry. [2]

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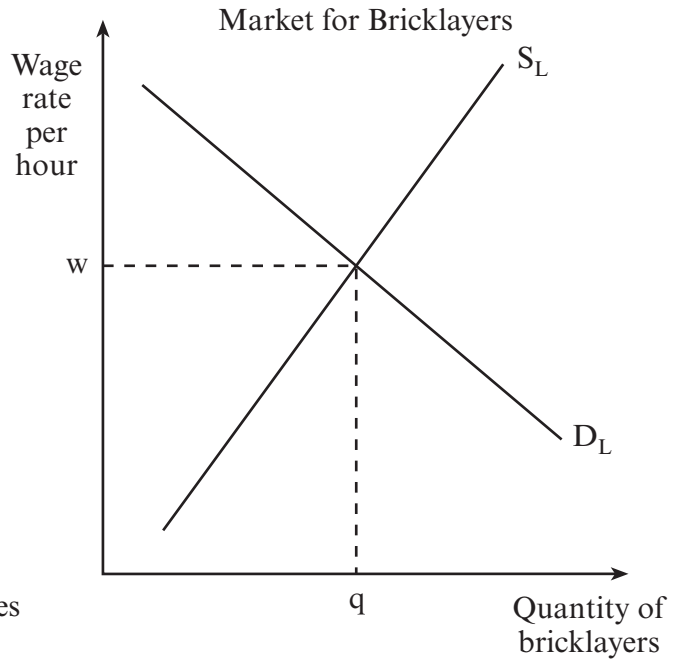
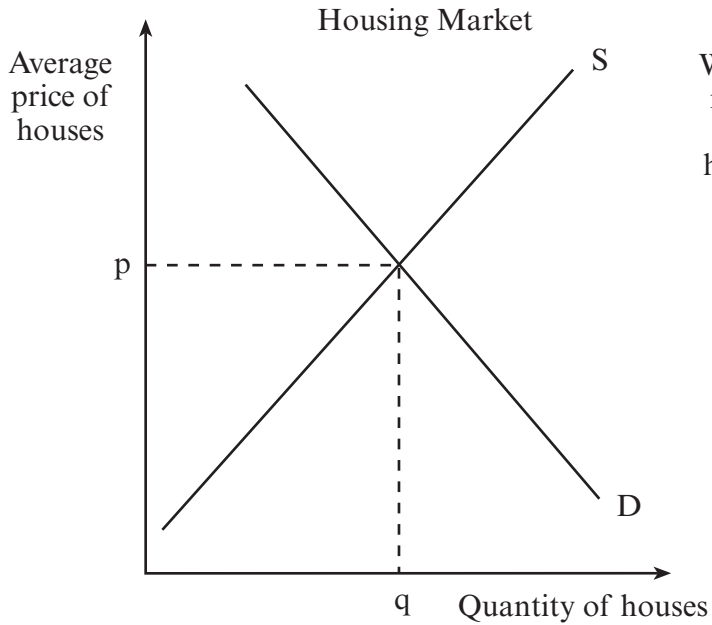
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3. The diagrams below show the average price of houses and the average wage of bricklayers in an economy.



Adapt **both** diagrams to explain the likely effects of a cut in mortgage interest rates accompanied by an increase in the availability of mortgages on the price of houses and the wages of bricklayers. [4]

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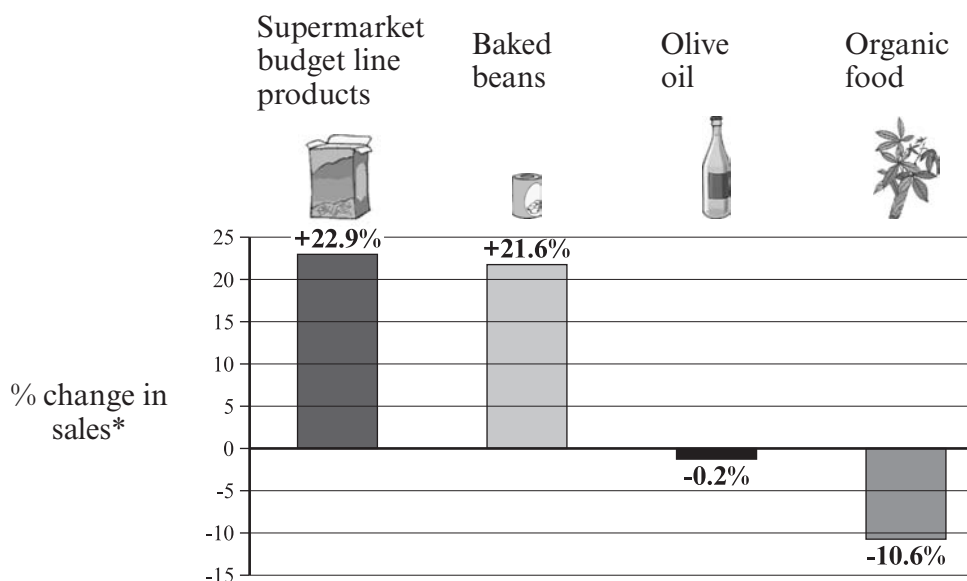
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4. **The recession's impact on consumers as GDP falls**



*Figures for April 2009 compared with April 2008

Source: Nielean Scantrack

Using the data above, distinguish between the concepts of normal goods and inferior goods.

[4]

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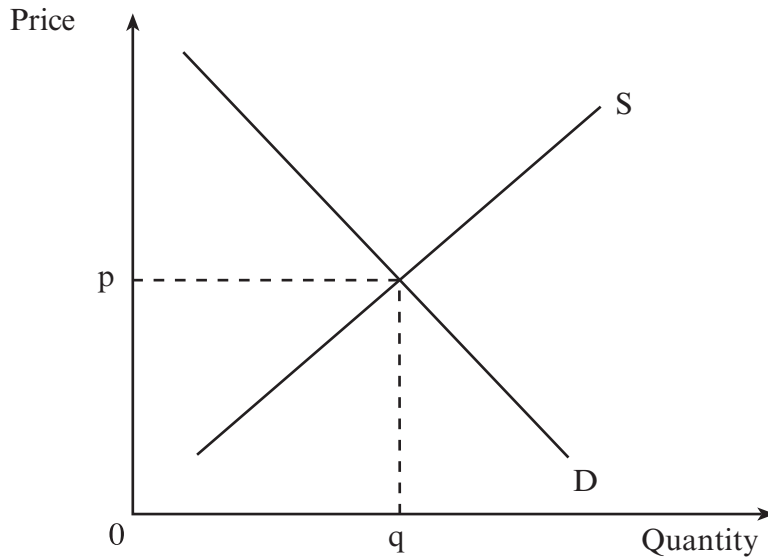
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Total Mark

5. In the diagram below the market for a **demerit good** is in equilibrium at pq but there is **asymmetry of information**, in that consumers do not have full knowledge of the harmful consequences of buying the product.



Adapting the diagram above, explain how the market equilibrium would be changed if consumers gained full market knowledge. [3]

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6. UK SHOULD END BIOFUEL SUBSIDIES

The Government has said that by 2010, 5% of all UK ethanol and diesel should come from sources such as corn, sugar cane and rape seed instead of fossil fuels. With this in mind the Government provides £550m in biofuel subsidies. However, Policy Exchange, a 'think tank', has recently said that investing the same amount of money in peat-land could result in a 50 times greater reduction in CO₂ emissions. In addition, critics say that encouraging biofuels encourages farmers to abandon food production leading to food shortages, higher prices and deforestation.

Source: BBC News website 30/11/08

(a) With the use of an example, explain why CO₂ emissions are an example of an external cost. [3]

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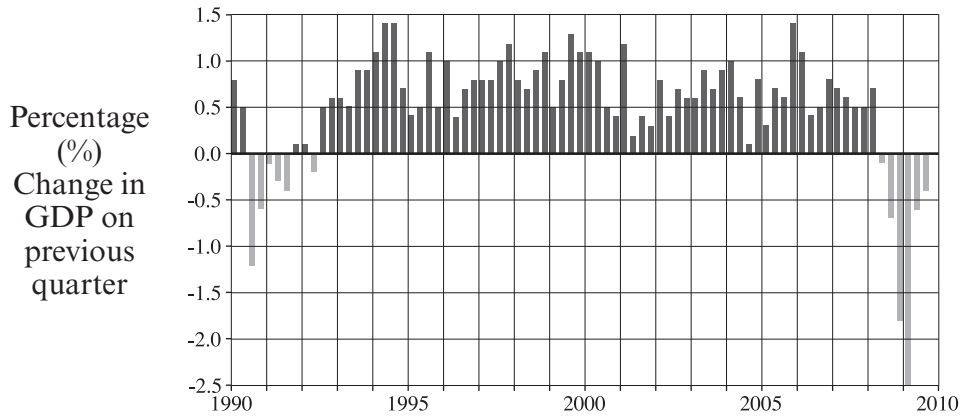
(b) Define government failure and discuss the extent to which the Government's policy towards biofuels, as explained above, is an example of government failure. [6]

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TURN OVER FOR QUESTION 8

8. **UK's longest recession since 1955**



(a) Using an aggregate demand and aggregate supply diagram, explain the impact on the UK economy of the data shown between 2008 and 2010. [4]

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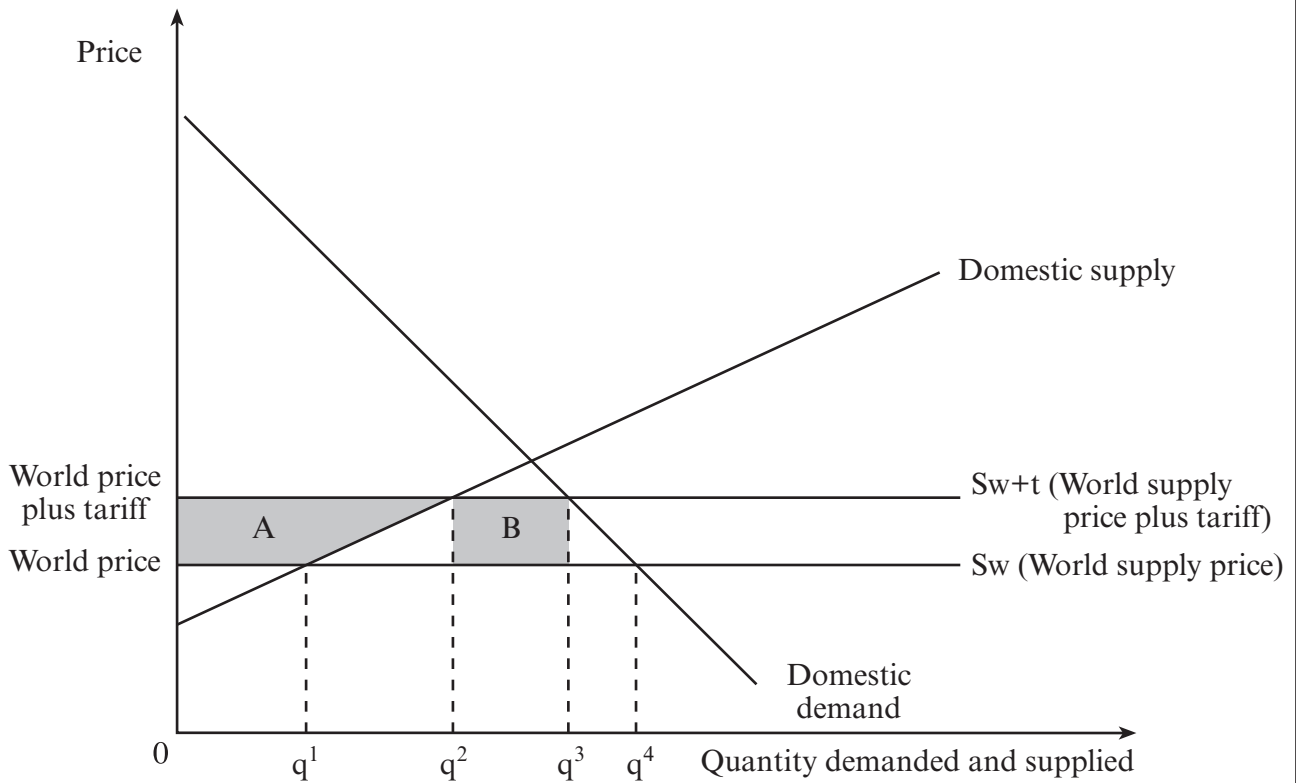
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(b) In early 2010 interest rates were already at 0.5% and there was a budget (fiscal) deficit of over 12% of GDP. Evaluate the policies available to the Government in 2010 to move the economy out of recession. [8]

A series of horizontal dotted lines for writing the answer to the question above.

Total Mark

9. The diagram below shows the effect of a government imposing a tariff on an imported product.



(a) Identify the two shaded areas on the diagram. [2]

- (i) Area A
- (ii) Area B

(b) Using the diagram, assess the benefits to a country of imposing a tariff on a product.[6]

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For continuation only.

Ruled area for continuation with horizontal dotted lines.

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